

**REPORT OF THE AUDIT OF THE
GALLATIN COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

March 27, 2004



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
GALLATIN COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES

March 27, 2004

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2003 Taxes for Gallatin County Sheriff as of March 27, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$3,469,108 for the districts for 2003 taxes, retaining commissions of \$143,201 to operate the Sheriff's office. The Sheriff distributed taxes of \$3,324,797 to the districts for 2003 Taxes.

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary Finance and Administration Cabinet

Honorable George W. Zubaty, Gallatin County Judge/Executive

Honorable Nelson Brown, Gallatin County Sheriff

Members of the Gallatin County Fiscal Court

Independent Auditor's Report

We have audited the Gallatin County Sheriff's Settlement - 2003 Taxes as of March 27, 2004. This tax settlement is the responsibility of the Gallatin County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Gallatin County Sheriff's taxes charged, credited, and paid as of March 27, 2004, in conformity with the modified cash basis of accounting.



To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary Finance and Administration Cabinet

Honorable George W. Zubaty, Gallatin County Judge/Executive

Honorable Nelson Brown, Gallatin County Sheriff

Members of the Gallatin County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated August 20, 2004, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

Audit fieldwork completed -
August 20, 2004

GALLATIN COUNTY
NELSON BROWN, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2003 TAXES

March 27, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 312,586	\$ 423,999	\$ 1,499,854	\$ 388,803
Tangible Personal Property	75,089	67,902	237,589	400,390
Intangible Personal Property				96,508
Fire Protection	660			
Increases Through Exonerations				6,543
Franchise Corporation	33,173	31,462	111,590	
Additional Billings	340	422	1,626	456
Limestone, Sand, and Mineral Reserves	699	867	3,345	861
Penalties	2,831	3,879	13,346	3,492
Adjusted to Sheriff's Receipt	546	3,400	2	324
Gross Chargeable to Sheriff	<u>\$ 425,924</u>	<u>\$ 531,931</u>	<u>\$ 1,867,352</u>	<u>\$ 897,377</u>
<u>Credits</u>				
Exonerations	\$ 21,924	\$ 20,488	\$ 71,887	\$ 9,241
Discounts	4,982	6,381	22,273	14,030
Delinquents:				
Real Estate	9,745	13,201	46,580	11,983
Tangible Personal Property	126	114	401	70
Intangible Personal Property				50
Total Credits	<u>\$ 36,777</u>	<u>\$ 40,184</u>	<u>\$ 141,141</u>	<u>\$ 35,374</u>
Taxes Collected	\$ 389,147	\$ 491,747	\$ 1,726,211	\$ 862,003
Less: Commissions *	<u>16,826</u>	<u>20,404</u>	<u>69,048</u>	<u>36,923</u>
Taxes Due	\$ 372,321	\$ 471,343	\$ 1,657,163	\$ 825,080
Taxes Paid	372,183	471,163	1,656,508	824,943
Refunds (Current and Prior Year)	<u>158</u>	<u>197</u>	<u>655</u>	<u>137</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (20)</u>	<u>\$ (17)</u>	<u>\$ 0</u>	<u>\$ 0</u>

* and ** See Page 4

The accompanying notes are an integral part of this financial statement

GALLATIN COUNTY
NELSON BROWN, SHERIFF
SHERIFF'S SETTLEMENT - 2003 TAXES
March 27, 2004
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,698,103
4% on	\$	1,747,413
1% on	\$	13,592

** Special Taxing Districts:

Library District	\$	1
Extension District		<u>(18)</u>
Due Districts or (Refund Due Sheriff)	\$	<u><u>(17)</u></u>

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENT

March 27, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of March 27, 2004, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENT
March 27, 2004
(Continued)

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 19, 2004 through March 27, 2004.

Note 4. Interest Income

The Gallatin County Sheriff earned \$746 as interest income on 2003 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Gallatin County Sheriff collected \$19,725 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Gallatin County Sheriff collected \$1,685 of advertising costs and \$630 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff pays the costs of advertising; therefore, the advertising costs and fees will be used to operate the Sheriff's office.

Note 7. 2001 Tax Escrow Account

The 2001 tax escrow account had deposits of \$197 from two taxing districts for money due the tax account for the settlement of 2001 taxes. The account earned \$10 in interest in 2003. The account had an ending balance of \$2,157, as of December 31, 2003.

According to KRS 393.090, property is considered abandoned after three years and escheats to the Kentucky State Treasurer.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable George W. Zubaty, Gallatin County Judge/Executive
The Honorable Nelson Brown, Gallatin County Sheriff
Members of the Gallatin County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Gallatin County Sheriff's Settlement - 2003 Taxes as of March 27, 2004, and have issued our report thereon dated August 20, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Gallatin County Sheriff's Settlement - 2003 Taxes as of March 27, 2004 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Gallatin County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

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Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 20, 2004

